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# BUILDING COMMUNITY FOUNDATIONS

Bulletin #36  
April 1999

GRANTMAKING CONSULTING PROGRAM

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PHILANTHROPIC VENTURES FOUNDATION-  
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## Covering Administrative Costs A CASE STUDY

Rose Meissner, President of the Community Foundation of St. Joseph County in South Bend, Indiana shares her experience in creating an administrative endowment. She approached a donor, suggested the possibility of creating such an endowment, gave her arguments why such a fund would be worthy of support, and the donor gave \$4 million which was supplemented with \$1 million from the Lilly Foundation. Her thoughtful approach is described below in this article she contributed at the Editor's request.

Further information can be obtained by contacting Rose Meissner at (219) 232-0041.

Community foundations assist individuals in creating permanent legacies. In 1997, I had the privilege of working with Judd and Mary Leighton, and the Leighton-Oare Foundation, to create a legacy that I believe is as close to perfect as they come.

Consider for a moment what the perfect legacy would look like. It would reach throughout a community, cut across all needs, all opportunities, all walks of life. The perfect legacy would increase in power over the years. It would inspire others to reach higher, stretch further, dig deeper, to make their community a more wonderful place for all its citizens.

The Leighton Endowment for the Advancement of Philanthropy does all this and more. This fund was established in December 1997 to support the mission and purposes of the Community Foundation of St. Joseph County. The earnings from this fund enabled our community foundation to waive administrative fees on all endowed funds.

The Leighton Endowment for Advancement of Philanthropy was established with a \$4 million gift from the Leighton-Oare Foundation. While this gift was under consideration,

the Lilly Endowment announced Phase III of its extraordinary "Giving Indiana Funds for Tomorrow" community foundation initiative, which included an opportunity for \$1 million in endowment matching funds. Our board of directors decided to augment the Leighton-Oare commitment with this \$1 million grant, recognizing that every fund in our community foundation that exists now or in the future will benefit from this program.

Proposing to a donor that they endow a nonprofit organization's operations seems preposterous at first blush. But, if you are lucky, you will find an entrepreneurial spirit in your community like Judd Leighton, who had the vision to grasp the true significance of this concept and the means to act on it.

Here's the logic. People will be more likely to start an endowed fund and will give to it more generously because knowing that 100% of each gift will be dedicated directly to the charitable purposes they wish to serve is very appealing. By eliminating the administrative charge we were taking off of each fund, an extra one percent remains invested. This extra one percent will cause the corpus of every fund to grow faster. Faster growth in the corpus leads to faster growth in grants and more support for our community.

This idea has the most potential for newer community foundations because the amount of money required to endow a major portion of operating expenses for a larger foundation would be daunting.

One cannot be certain the earnings from such a fund will always suffice. An administrative fee based on a percentage of assets ensures that operating revenue will grow with size. The Leighton Endowment for the Advancement of Philanthropy is certain to make our foundation grow faster than it would otherwise have done, raising the possibility that growth in administrative expenses will outstrip the growth in operating endowment revenue.

We address this possibility in several ways:

1. We did not remove language from our fund agreements stating that each fund will be obligated to cover its fair share of the cost of administration. In effect, revenue from the Leighton Endowment is "picking up the tab" rather than eliminating an obligation. If we ever need to assess a reasonable fee to cover an operating deficit or bolster the operating endowment, we can still do so. We reserve the right to assess a fee on funds that require an unusual amount of administration, such as scholarships.
2. We concentrate on diversifying our revenue sources. We continue to charge fees on all non-endowed assets, such as gift annuities or special project funds. We charge a modest fee of .4%. We try to manage our cash efficiently to maximize earnings on undistributed grants.
3. We intend to expend 4% of the Leighton Endowment for the Advancement of Philanthropy Fund each year. This should enable the Leighton Endowment to grow

faster than inflation and increase the likelihood that the revenue it produces will continue to suffice over time.

What was the reaction to this fund? Charities within the community were generally delighted. At first, a small minority seemed a little envious, maybe even resentful, until we pointed out that it is not the Community Foundation of St. Joseph County, but all of our beneficiaries, that stand to gain from this new endowment. It is local charities that will benefit from the Leighton Endowment through increased giving by local citizens, faster growth in foundation assets, and increased revenue available for grants.

Does such a fund send the wrong message about administrative fees in general? I don't think so. I never apologized for having an administrative fee and did everything in my power to make sure it was well earned. But even if charging fees to cover the reasonable costs of administering funds is a natural and appropriate practice, it doesn't take away from the beauty of the gift the Leighton Endowment makes every year to every fund in the Community Foundation, making each of these funds a little more powerful. And personally, I am delighted to be in a position in which every endowed gift I solicit provides nothing to the Community Foundation of St. Joseph County.

### **Interesting Reading**

"Succeeding With Consultants" Self-Assessment for the Changing Nonprofit

Barbara Kibbe and Fred Setterley

The Foundation Center \$14.95

(212) 620-4230

Barbara Kibbe is the program officer at the David & Lucile Packard Foundation who specializes in making consultants available to nonprofits. She has a specific program of funding community foundations (primarily in California) with money to hire consultants for nonprofits.

Past copies of *Building Community Foundations*, Bulletin 1 (August 1992) to Bulletin 35 are available as a unit for \$20 to cover the cost of copying and mailing. Send check to:

**Philanthropic Ventures Foundation**  
**1212 Preservation Park Way**  
**Oakland CA 94612-1201**  
**E-mail [pvf@lmi.net](mailto:pvf@lmi.net)**

## ***Building Community Foundations***

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### **The Grantmaking Consulting Program offers three services:**

- ◆ Three day on-site visits with extensive review of foundation procedures, extended individual sessions with the foundation board, grants committee, and staff.
- ◆ Two day training session for program officers (5 or more persons)
- ◆ Facilitating board retreats

The services are available to foundations in Canada and the U.S.

The only cost to foundations is the consultants' room and meals if the foundation is smaller than \$8 million in assets, and travel for foundations of \$8 million +. His time is sponsored by the Packard Foundation.

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### **Comments on The Grantmaking Consulting Program:**

"Thank you so much for your motivating assessment of our organization. You have inspired not only our board but many others in the community." Diana Sutton, President

Yampa Valley Community Foundation  
Steamboat Springs Colorado

"Given that we are a young and relatively 'pliable' organization, the timing of your visit was absolutely perfect."

Kelly Lucy, Executive Director

Community Foundation of South Wood County  
Wisconsin Rapids, WI

"The information you shared will help our foundation to become a major force for change – you helped us to 'get out of the box' and look at our processes objectively."

Lisa Richlick, Executive Director  
Allegan County Community Foundation  
Allegan, MI